



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

July 31, 2008

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE B. BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

To: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

## SACRAMENTO UPDATE

This memorandum includes information on State budget-related issues, and County advocacy legislation.

### State Budget Update

Today, Governor Schwarzenegger signed an Executive Order to reduce the pay for approximately 200,000 State employees to the Federal minimum wage of \$6.55 per hour, implementing layoffs for an estimated 22,000 workers, and ordering a Statewide hiring freeze. State Controller John Chiang has indicated to the media that he will ignore the Executive Order with regard to the pay reductions. A copy of the Governor's Executive Order is provided as Attachment I.

On July 30, 2008, State Controller John Chiang issued a press release outlining more than \$3 billion in payments that are in jeopardy of being made if the State Budget is not adopted by the end of August. These items include payments to school districts for "categorical" programs such as special education, remedial summer school, and community colleges. In addition, payments to vendors could be delayed for services provided after July 1, 2008 and salaries and per diem for State elected officials and their appointed staff. The Controller will continue to make payments in several areas including Federally-mandated services such as Supplemental Security Income/State

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Supplementary Payment (SSI/SSP), In-Home Supportive Services, payroll for State employees covered by the Federal Fair Labor Standards Act, and vendor payments for services provided prior to June 30, 2008. The Controller's press release is provided as Attachment II.

### **Status of County-Advocacy on State Budget Item**

Our Sacramento advocates continue efforts to ensure that funding is preserved for the California Children's Services (CCS) program. Based on information initially provided by the State, the Department of Public Health (DPH) estimated the Governor's proposed 10 percent reduction in the CCS program to result in a loss of \$4.5 million to the County. The State subsequently indicated that they would be adopting a new methodology for determining the FY 2008-09 CCS administrative allocations that does not consider certain critical elements such as differing caseloads, staff vacancy rates and nursing salary increases in each county. This approach results in counties receiving reductions that far exceed the Governor's proposed 10 percent reduction. Based on the State's proposed methodology, the County's allocation for CCS would be reduced by \$10.5 million compared to FY 2007-08, which would represent a cut of 21 percent. While the Budget Conference Committee restored funding for this program as part of its actions, there is still the potential for program reductions to CCS as the State Budget is finalized. A copy of a July 10, 2008 advocacy letter on this item is provided for your reference as Attachment III.

### **Pursuit of County Position on Legislation**

**SBX3 16 (Cox)**, as introduced on June 17, 2008, would eliminate the allocation of Proposition 10 funds to the State and county First 5 Commissions and redirect all future Proposition 10 revenue to the State General Fund for the Healthy Families and Medi-Cal Programs, subject to voter-approval. SBX3 16 also would abolish the California and county First 5 Commissions and reallocate unencumbered Proposition 10 revenues to the State General Fund, county treasurers, and county offices of education.

Current Law. In November 1998, voters approved Proposition 10, the California Children and Families Act, which increased taxes on tobacco products to fund programs to improve the health and development of children from birth to five years of age. Proposition 10 tobacco tax revenues generate over \$500 million annually for these services. Proposition 10 also established the California and county Children and Families Commissions (First 5 Commissions) to administer these programs. The allocation of funding provides for 20 percent to the California First 5 Commission and the remainder (80 percent) to county First 5 Commissions. County First 5 Commissions are required to provide services in three areas: 1) child health; 2) child development; and 3) support for family functioning. County First 5 Commissions have authority to

develop initiatives and prioritize funding to meet the needs of families and young children which may include establishing preschools and funding health care services.

County Impact. Upon voter approval, all future Proposition 10 revenues would be redirected to the State General Fund for Healthy Families and Medi-Cal Programs. The bill also would reallocate Proposition 10 revenues that are unencumbered at the time of voter-approval. Unencumbered funds held by the California First 5 Commission would go to the State General Fund for fiscal relief. Unencumbered Proposition 10 revenues held by county First 5 commissions would be placed in a local Children and Families Trust Fund and redistributed on a one-time basis as follows:

- Fifty percent of the funds would be allocated to the county offices of education. The county offices of education would share the funds with local school districts using a formula based on average daily attendance. The funds could be used for any lawful purpose related to the operation of the county office of education or school district. Each county office of education may retain \$60,000 for administrative purposes.
- Fifty percent of the funds would be allocated to county treasurers. Half of the funds would be deposited in the county general fund. The remaining funds would be allocated to incorporated cities within 90 days of receipt by the county treasurer, divided on a per capita basis. SBX3 16 does not restrict the use of these funds by counties or cities.

The First 5 LA fund unencumbered fund balance as of June 30, 2007 was approximately \$162.4 million. Based on this amount, \$81.2 million in one-time funding would be placed in the Los Angeles County Treasury. Of this amount, \$40.6 million would be placed in the County General Fund. The remaining \$40.6 million would be allocated to the incorporated cities. The Los Angeles County Office of Education would share the other 50 percent funds of the unencumbered funds with school districts throughout the County.

The author indicates that SBX3 16 would free up \$2.4 billion in unencumbered Proposition 10 revenues to address the State's budget deficit and provide funding to expand the Healthy Families Program to an additional 200,000 children in California. Any additional funding would be directed to ongoing needs in the Medi-Cal Program. In addition, the author indicates that SBX3 16 also would provide the Governor and the Legislature with the flexibility to address the State's health care issues and "provide immediate fiscal relief to local governments to pay for local services."

SBX3 16 would eliminate the array of services currently provided by First 5 LA that are specifically designed to meet the needs of the County's families and youngest children. These services include: prenatal care, health and nutrition programs, school readiness,

developmental screenings and assessments, parental education and support, and workforce development. These programs were funded at an estimated \$225.7 million in FY 2007-08. The Department of Children and Family Services (DCFS) indicates that SBX3 16 would not affect the Department as it receives no direct funding from Proposition 10. However, the families served by DCFS and other County departments would be negatively impacted if these programs are eliminated.

SBX3 16 is similar to County-opposed SB 893 (Cox) of 2007 and SBX1 5 (Cox) of 2007. As instructed by your Board on April 10, 2007, the Executive Officer sent a five-signature letter to the Governor, Assembly Speaker, Senate President Pro Tempore, Senator Sheila Kuehl, Chair of the Senate Health Committee and the Los Angeles County Legislative delegation expressing the Board's opposition to SB 893. That bill failed passage in the Senate Health Committee on April 25, 2007 by a vote of 4 to 6. SBX1 5 failed passage in the same committee on January 16, 2008 by a vote of 3 to 5. DCFS and this office oppose SBX3 16. Opposition is consistent with policy to oppose legislation which would shift Proposition 10 revenue from all County First 5 Commissions, including First 5 LA, undermine local decision-making, and take Proposition 10 revenues away from families and young children. As such, **our Sacramento advocates will oppose SBX3 16.**

Currently, there is no registered support or opposition on file for SBX3 16. However, we have learned that the Los Angeles County Office of Education opposes the bill. In addition, SB 893 and SBX1 5 were opposed by the California State Association of Counties, the First 5 Association of California, First 5 LA, and numerous county boards of supervisors and First 5 Commissions. The bill has not been scheduled for a hearing.

#### **Status of County-Advocacy Legislation**

**County-Supported AB 2588 (Calderon)**, which would clarify that the California Retail Food Code does not prohibit a local government's authority to impose reasonable time and place restrictions on commercial vendors operating upon any street, was signed by the Governor on July 17, 2008 as Chapter 139, Statutes of 2008.

We will continue to keep you advised.

WTF:GK:MAL  
DD:IGA:mp

#### **Attachments**

c: All Department Heads  
Legislative Strategist  
Local 721  
Coalition of County Unions



# Office of the Governor

ARNOLD SCHWARZENEGGER  
THE PEOPLE'S GOVERNOR

Attachment I

## EXECUTIVE ORDER S-09-08

07/31/2008

**WHEREAS** the constitutional deadline for enacting a state budget for Fiscal Year 2008-09 has passed without the enactment of a budget; and

**WHEREAS** in the absence of a budget, State government is constitutionally prohibited from making payments that are not compelled by either the State Constitution or federal law; and

**WHEREAS** until there is a state budget, the State has no authority to pay the following payments: (1) Vendors and Contractors for goods and services chargeable to Fiscal Year 2008-09; (2) Payroll for legislative staff, appointees, and exempt employees; (3) Payroll for other state employees beyond that required by federal labor law; (4) Highway User Taxes that are apportioned to the state, cities and counties for highway and road improvement projects; (5) Cal Grants to students in higher education; (6) Transfers to the Trial Courts; (7) Transfers to University of California, California State University, and Community Colleges; (8) Transportation Revolving Fund disbursements; (9) Non-revenue limit school payments; and (10) Payments for non-federally mandated social services programs such as Community Care Licensing, Adult Protective Services, State Only Foster Care; State Only Adoptions Assistance, and Cash Assistance Program for Immigrants; and (11) tax relief payments to low income seniors and disabled persons; and

**WHEREAS** on May 1, 2003, the California Supreme Court, in *White v. Davis*, issued a decision that, in conjunction with other pre-existing court orders, clarified that during a period that there is no state budget in place, federal labor laws require the State to pay its nonexempt FLSA employees either federal minimum wage or, for those employees that work overtime, their full salaries plus overtime; and

**WHEREAS** it is not known when a budget will be adopted for Fiscal Year 2008-09; and

**WHEREAS** as a result of the late budget, there is a real and substantial risk that the State will have insufficient cash to pay for state expenditures; and

**WHEREAS** since June 2008, the unprecedented number and size of fires in California has created states of emergency that have required additional and substantial expenditures of cash to ensure that there are sufficient resources to effectively fight these fires and save lives and homes; and

**WHEREAS** it is critical that the State be able to meet any unforeseen emergency such as fire, flood or public health emergency and to continue to make timely payments on constitutionally and federally-mandated obligations and existing obligations to pay holders of state bonds; and

**WHEREAS** due to the impending cash crisis and budget delay, the State may be forced to consider a Revenue Anticipation Warrant (RAW) at an exorbitant cost to the State, including hundreds of millions of dollars in credit enhancements, in order to make sure there is sufficient cash to pay for state expenditures; and

**WHEREAS** after the late adoption of a budget, there will be additional cash demands because all of the deferred payments that were not permitted to be made during the budget impasse will become due and payable; and

**WHEREAS** the late budget has resulted in loss of savings to the State in the amount of \$164 million for July, and failure to enact a budget in August will result in additional loss of savings in the amount of \$323 million; and

**WHEREAS** as a result of the late budget, additional mitigation measures must be implemented to offset the loss of savings and to ensure that there is sufficient cash to make the State's payments; and

**WHEREAS** the State employs nearly 22,000 retired annuitants, permanent intermittent employees, and seasonal employees and the State hires new employees at the rate of approximately 1,700 per month; and

**WHEREAS** except for services and functions of state government deemed critical by this Order, additional mitigation measures need to be taken to immediately reduce expenditures and preserve cash, including the following: (1) halting all hiring, transfers and promotions of employees, and contracting for individuals to perform services; (2) prohibition of overtime; (3) termination of the services of retired annuitants, permanent intermittent employees, seasonal employees, temporary help workers and, student assistants; and (4) suspension of personal services contracts.

**NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER**, Governor of the State of California, in accordance with the authority vested in me by the Constitution and the statutes of the State of California, do hereby issue the following orders to become effective immediately:

**IT IS ORDERED** that the services and functions of state government directly related to the preservation and protection of human life and safety, including but not limited to emergency and disaster response activities and the provision of 24-hour medical care, shall be deemed critical and exempt from this Order.

**IT IS FURTHER ORDERED** that except for services and functions of state government deemed critical and exempt by this Order, all State agencies and departments under my direct executive authority take immediate action effective July 31, 2008 to cease and desist hiring of employees (except in instances in which there is a bona fide offer and acceptance prior to the effective date of this Order), transferring employees between State agencies and departments, promoting employees, and contracting for individuals to perform services.

**IT IS FURTHER ORDERED** that except for services and functions of state government deemed critical and exempt by this Order and emergent situations to preserve and protect human life and safety, all State agencies and departments under my direct executive authority take immediate action to cease and desist authorization of all overtime for employees effective July 31, 2008.

**IT IS FURTHER ORDERED** that except for services and functions of state government deemed critical and exempt by this Order, all State agencies and departments under my direct executive authority take immediate action to terminate the services of the following five categories of employees and individuals effective July 31, 2008: (1) Retired Annuitants; (2) Permanent Intermittent Employees; (3) Seasonal Employees; (4) Temporary Help Workers; and (5) Student Assistants.

**IT IS FURTHER ORDERED** that except for services and functions of state government deemed critical and exempt by this Order and except for services provided pursuant to multi-year contracts for Information Technology systems and services, all State agencies and departments under my direct executive authority take immediate action to suspend all personal services contracts effective July 31, 2008.

**IT IS FURTHER ORDERED** that all Agency Secretaries and Department Directors shall take immediate action to implement this Order, and any other action that will reduce state expenditures.

**IT IS FURTHER ORDERED** that the Director of the Department of Finance shall establish an exemption process that Agency Secretaries shall utilize to determine if an exemption is justified based on critical services and functions, which may include either cost-reducing or revenue-producing services and functions that will help ensure that there is sufficient cash for the State to make its payments.

**IT IS FURTHER ORDERED** that Agency Secretaries and Cabinet-level Directors shall report their exemptions to the Cabinet Secretary and the Director of the Department of Finance within 24 hours of approving an exemption.

**IT IS FURTHER ORDERED** that the Director of the Department of Finance and Director of the Department of Personnel Administration shall work with the State Controller to develop and implement the necessary mechanisms, including but not limited to pay letters and computer programs, to comply with the California Supreme Court's *White v. Davis* opinion to pay federal minimum wage to those nonexempt FLSA employees who did not work any overtime.

**IT IS FURTHER ORDERED** that the necessary mechanisms to ensure compliance with the *White v. Davis* opinion must be in place to be effective for the August 2008 payroll.

**IT IS HEREBY REQUESTED** that during this budget impasse, the State Treasurer shall take all actions necessary to maintain the State's ability to pay its bond obligations, including payment of principal and interest with

funds in the State Treasury, and shall take all actions that are necessary to protect the State's funds and investments.

**IT IS FURTHER REQUESTED** that other entities of State government not under my direct executive authority, including the California Public Utilities Commission, the University of California, the California State University, California Community Colleges, constitutional officers, the legislative branch (including the Legislative Counsel Bureau), and judicial branch, assist in the implementation of this Order and implement similar mitigation measures that will help to preserve the State's cash supply during this budget impasse.

**IT IS FURTHER ORDERED** that this Order shall remain in effect until such time as both a Fiscal Year 2008-09 Budget is adopted and the Director of the Department of Finance confirms an adequate cash balance exists to meet the State's fiscal obligations.

**I FURTHER DIRECT** that as soon as hereafter possible, this Order be filed in the Office of the Secretary of State and that widespread publicity and notice be given to this Order.



**IN WITNESS WHEREOF** I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 31st day of July 2008.

ARNOLD SCHWARZENEGGER  
Governor of California

**ATTEST:**

DEBRA BOWEN  
Secretary of State

# CONTROLLER JOHN CHIANG

## STATE OF CALIFORNIA

Attachment II  
300 Capitol Mall  
Sacramento, CA 95814  
916.445.2636  
www.controller.ca.gov

PR08:041

FOR IMMEDIATE RELEASE:  
JULY 30, 2008

CONTACT: HALLYE JORDAN  
916-445-2636

## Chiang Describes August Impact of Budget Delay

**SACRAMENTO** – State Controller John Chiang today outlined more than \$3 billion in payments his office will not be able to make if a State Budget is not adopted by the end of August. The list of payments is available at the Controller's web site. The website also details at least \$1.25 billion in other payments that could not be made in July without a budget in place.

“The longer we go without a budget, the more we force schools, rural hospitals, health clinics, nursing homes and small businesses to raid their own savings accounts, take out loans, or limit their services by closing their doors,” said Chiang. “The only remedy for the situation is a solid budget in place.”

Without a budget in August, payments the Controller cannot pay include:

- School districts for “categorical” programs such as special education and remedial summer school, community colleges, and local governments.
- Vendors for services provided after July 1.
- Salaries and per diem of state elected officials and their appointed staff.

While \$2 billion in contingency funding was available to institutional Medi-Cal providers and Regional Developmental Service centers, the state estimated that funding would not last into the month of August. Payments to both groups stopped on July 28, and they will not be reimbursed for additional services until after the budget is signed.

The Controller will continue to make the following payments:

- Federally-mandated services such as Supplemental Security Income/State Supplementary Payment (SSI/SSP), and In-Home Supportive Services.
- Payroll for state employees covered by the Federal Fair Labor Standards Act.
- Vendor payments for services provided in the previous fiscal year ending June 30.
- Expenses with ongoing appropriations from the Legislature, including Medi-Cal (payments to non-institutional providers), CalWORKs, income tax refunds and payments on claims for unclaimed property.
- Debt service and other financial obligations authorized by the State Constitution.

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## COUNTY OF LOS ANGELES

### Sacramento Legislative Office

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WILLIAM T FUJIOKA  
Chief Executive Officer

DANIEL J. WALL  
Chief Legislative Advocate

### Attachment III

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE B. BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

July 10, 2008

The Honorable Arnold Schwarzenegger  
Governor of the State of California  
State Capitol  
Sacramento, California 95814

**RE: ITEM 4265 – DEPARTMENT OF PUBLIC HEALTH: CALIFORNIA  
CHILDREN'S SERVICES PROGRAM—REQUEST TO MAINTAIN FUNDING**

Dear Governor Schwarzenegger:

The Los Angeles County Board of Supervisors respectfully requests that you maintain vital funding for the California Children's Services (CCS) Program, which provides critical health care services for the State's most medically fragile children. While your proposal would reduce funding by 10 percent for CCS Case Management and Medical Therapy Program (MTP), the percentage reduction would be far greater because the CCS Program receives a 75 percent Federal match.

The County's Department of Public Health (DPH) provides CCS services to 55,000 eligible children. The proposed 10 percent reduction for case management would actually equate to over 20 percent, or a loss of \$10.5 million in funding for DPH to provide these services, because of the proposed methodology for implementing the reduction. The new methodology would establish allocations for each county based on a statewide formula which does not take into account the different caseloads, staff vacancy rates, or nursing salary increases in each county. If the formula is an inaccurate means to project CCS county administration, state funding would be capped at levels potentially far greater than a 10 percent reduction.

DPH reports that the loss of funding will result in fewer case management staff which will cause delays in service and have negative outcomes for these medically fragile children. For example, in Los Angeles County, 6,700 CCS children have congenital heart disease and another 9,000 CCS children have chronic respiratory disease. These children require highly specialized care, and delays in treatment will result in needless pain and suffering. Without timely and proper care for heart, respiratory and other CCS conditions, these children will likely present to already overcrowded emergency rooms for their care.

The Honorable Arnold Schwarzenegger  
July 10, 2008  
Page 2 of 2

The proposed 10 percent reduction for MTP would further aggravate waiting lists for therapy services. Children with cerebral palsy, spina bifida and other neurological and musculoskeletal disorders would face long delays in receiving necessary therapy, which could cause permanent harm.

Therefore, I respectfully request that you maintain funding for CCS Case Management and MTP.

Sincerely,



Daniel J. Wall  
Chief Legislative Advocate

DJW:DS:s

cc: Each Member, Budget Conference Committee  
Each Member, Los Angeles County Legislative Delegation  
Assembly Speaker Karen Bass  
Assembly Republican Leader Mike Villines  
Senator President pro Tempore Don Perata  
Senate Republican Leader Dave Cogdill  
Kim Belshe, Secretary, Health and Human Services Agency  
Sandra Shewry, Director, California Department of Health Care Services  
Diane Cummins, Consultant, Office of Senate pro Tempore Don Perata  
Diane Van Maren, Consultant, Senate Budget and Fiscal Review Committee  
Dan Rabovsky, Consultant, Assembly Budget Committee  
Anissa Nachman, Consultant, Senate Republican Caucus  
Lisa Mangat, Consultant, Assembly Republican Caucus